“”

USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Required Report - public distribution

Date: 10/16/2003

GAIN Report Number: MX3140

Mexico

Dairy and Products

Annual

2003

Approved by:
David Williams
U.S. Embassy Mexico City

Prepared by:
Sal Trejo

Report Highlights:
Fluid milk production for CY 2004 (Jan.-Dec.) is forecast to increase nearly three percent to 10.3 MMT. Continued modernization and improved herd management by large dairies will continue to boost overall production. 2004 NFDM imports are forecast unchanged at 165,000 MT as domestic production of milk increases. Modest growth in cheese imports is expected as Mexico's middle class consumers develop preferences for more U.S. style foods.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Mexico [MX1]
[MX]

Table of Contents

SECTION I. SITUATION AND OUTLOOK

Dairy Situation and Outlook: Fluid milk production for CY 2004 (Jan.-Dec.) is forecast to increase nearly three percent to 10.3 MMT. Continued modernization and improved herd management by large dairies will continue to boost overall production. 2004 non-fat dry milk (NFDM) imports are forecast unchanged at 165,000 MT as domestic production of milk increases. Additionally, Leche Industrializada CONASUPO (LICONSA) the parastatal charged with distributing milk to the poor has increased its usage of domestically produced milk, which is expected to dampen import demand for NFDM. Modest growth in cheese imports is expected as Mexico's middle class consumers develop preferences for more U.S. style foods.

SECTION II. STATISTICAL TABLES

PS&D Dairy, Milk, Fluid
(1000 Metric Tons)

PSD Table						
Country:	Mexico					
Commodity:	Dairy, Milk, Fluid					
	2002		2003		2004	
	Old	New	Old	New	Old	New
Calendar Year Begin	01/2002		01/2003		01/2004	
Cows In Milk	6800	6800	6800	6800		6850
Cows Milk Production	9560	9560	9575	9870		10140
Other Milk Production	140	140	140	140		140
TOTAL Production	9700	9700	9715	10010		10280
Intra EC Imports	0	0	0	0		0
Other Imports	20	20	20	20		20
TOTAL Imports	20	20	20	20		20
TOTAL SUPPLY	9720	9720	9735	10030		10300
Intra EC Exports	0	0	0	0		0
Other Exports	0	0	0	0		0
TOTAL Exports	0	0	0	0		0
Fluid Use Dom. Consum.	4080	4080	4085	4380		4550
Factory Use Consum.	5640	5640	5650	5650		5750
Feed Use Dom. Consum.	0	0	0	0		0
TOTAL Dom. Consumption	9720	9720	9735	10030		10300
TOTAL DISTRIBUTION	9720	9720	9735	10030		10300

PS&D Dairy, Cheese
(1000 Metric Tons)

PSD Table						
Country:	Mexico					
Commodity:	Dairy, Cheese					
	2002		2003		2004	
	Old	New	Old	New	Old	New
Calendar Year Begin	01/2002		01/2003		01/2004	
Beginning Stocks	0	0	0	0		0
Production	145	138	145	145		150
Intra EC Imports	0	0	0	0		0
Other Imports	65	71	70	73		75
TOTAL Imports	65	71	70	73		75
TOTAL SUPPLY	210	209	215	218		225
Intra EC Exports	0	0	0	0		0
Other Exports	0	0	0	0		0
TOTAL Exports	0	0	0	0		0
Human Dom. Consumption	210	209	215	218		225
Other Use, Losses	0	0	0	0		0
Total Dom. Consumption	210	209	215	218		225
TOTAL Use	210	209	215	218		225
Ending Stocks	0	0	0	0		0
TOTAL DISTRIBUTION	210	209	215	218		225

PS&D Dairy, Butter
(1000 Metric Tons)

PSD Table						
Country:	Mexico					
Commodity:	Dairy, Butter					
	2002		2003		2004	
	Old	New	Old	New	Old	New
Calendar Year Begin	01/2002		01/2003		01/2004	
Beginning Stocks	0	0	0	0		0
Production	70	78	70	78		80
Intra EC Imports	0	0	0	0		0
Other Imports	37	37	40	40		40
TOTAL Imports	37	37	40	40		40
TOTAL SUPPLY	107	115	110	118		120
Intra EC Exports	0	0	0	0		0
Other Exports	0	0	0	0		0
TOTAL Exports	0	0	0	0		0
Domestic Consumption	107	115	110	118		120
TOTAL Use	107	115	110	118		120
Ending Stocks	0	0	0	0		0
TOTAL DISTRIBUTION	107	115	110	118		120

Note: Above data includes butter and butterfat.

PS&D Dairy, Milk, Nonfat Dry
(1000 Metric Tons)

PSD Table						
Country:	Mexico					
Commodity:	Dairy, Milk, Nonfat Dry					
	2002		2003		2004	
	Old	New	Old	New	Old	New
Calendar Year Begin	01/2002		01/2003		01/2004	
Beginning Stocks	42	42	37	37		27
Production	150	145	150	150		160
Intra EC Imports	0	0	0	0		0
Other Imports	140	163	145	165		165
TOTAL Imports	140	163	145	165		165
TOTAL SUPPLY	332	350	332	352		352
Intra EC Exports	0	0	0	0		0
Other Exports	0	0	0	0		0
TOTAL Exports	0	0	0	0		0
Human Dom. Consumption	295	313	305	325		325
Other Use, Losses	0	0	0	0		0
Total Dom. Consumption	295	313	305	325		325
TOTAL Use	295	313	305	325		325
Ending Stocks	37	37	27	27		27
TOTAL DISTRIBUTION	332	350	332	352		352

PS&D Dairy, Dry Whole Milk Powder
(1000 Metric Tons)

PSD Table						
Country:	Mexico					
Commodity:	Dairy, Dry Whole Milk Powder					
	2002		2003		2004	
	Old	New	Old	New	Old	New
Calendar Year Begin	01/2002		01/2003		01/2004	
Beginning Stocks	0	0	0	0		0
Production	0	0	0	0		0
Intra EC Imports	0	0	0	0		0
Other Imports	45	45	45	45		45
TOTAL Imports	45	45	45	45		45
TOTAL SUPPLY	45	45	45	45		45
Intra EC Exports	0	0	0	0		0
Other Exports	0	0	0	0		0
TOTAL Exports	0	0	0	0		0
Human Dom. Consum.	45	45	45	45		45
Other Use, Losses	0	0	0	0		0
Total Dom. Consumption	45	45	45	45		45
TOTAL Use	45	45	45	45		45
Ending Stocks	0	0	0	0		0
TOTAL DISTRIBUTION	45	45	45	45		45

PRODUCTION OF FLUID MILK BY STATE (000 LITERS)

STATES	2002	2003*	% Change
AGUASCALIENTES	415057	420,000	1.1
BAJA CALIFORNIA	210,930	190,142	(10.9)
BAJA CALIFORNIA SUR	35,976	38,830	7.9
CAMPECHE	22,055	28,886	30.9
COAHUILA	959,419	1,058,544	10.3
COLIMA	39,920	37,847	(5.4)
CHIAPAS	264,035	317,209	20.1
CHIHUAHUA	802,394	815,665	1.6
MEXICO CITY	19,599	19,108	(2.5)
DURANGO	913,099	918,174	0.5
GUANAJUATO	642,854	642,900	0
GUERRERO	71,285	86,146	20.8
HIDALGO	419,996	426,450	1.5
JALISCO	1,709,300	1,737,608	1.6
MEXICO	484,161	486,347	0.4
MICHOACAN	297,038	284,840	(4.5)
MORELOS	17,120	17,578	2.6
NAYARIT	67,401	65,819	(3.0)
NUEVO LEON	41,905	40,355	(3.8)
OAXACA	143,439	143,992	0.3
PUEBLA	362,933	365,942	0.8
QUERETARO	219,637	220,323	0.3
QUINTANA ROO	3,888	5,218	34
SAN LUIS POTOSI	140,370	149,329	6.3
SINALOA	91,197	88,167	(3.4)
SONORA	127,580	133,200	4.4
TABASCO	88,609	95,990	8.3
TAMAULIPAS	23,562	27,435	16.4
TLAXCALA	126,149	156,866	24.3
VERACRUZ	698,733	705,721	1.0
YUCATAN	8,390	13,100	56.1
ZACATECAS	129,525	133,711	3.2
TOTAL	9,597,556	9,871,442	2.8

SOURCE: Agriculture Secretariat (SAGARPA)

*SAGARPA's forecast figures for January to December 2003

MEXICO'S MONTHLY FLUID MILK PRODUCTION
(000 LITERS)

MONTH	2002	2003*	% Change
JANUARY	714,209	738,923	3.4
FEBRUARY	721,406	758,341	5.1
MARCH	725,124	776,000	7.0
APRIL	722,527	763,803	5.7
MAY	747,567	809,549	8.2
JUNE	785,751	793,477	0.8
JULY	840,921	841,650	.08
AUGUST	881,127	882,832	0.2
SEPTEMBER	941,440	941,639	.02
OCTOBER	900,186	938,118	4.2
NOVEMBER	817,105	820,768	0.4
DECEMBER	800,193	806,342	0.7
TOTAL	9,597,556	9,871,442	2.8

SOURCE: Agriculture Secretariat (SAGARPA)

*SAGARPA's forecast figures for January to December 2003

AVERAGE MILK PRICES PAID TO PRODUCERS IN MEXICO
(PESOS PER LT.)

MONTH	2002	2003	VAR. %
January	2.90	3.04	4.82
February	2.98	3.04	2.01
March	3.03	3.08	1.65
April	3.01	3.08	2.32
May	3.01	3.08	2.32
June	3.06	N/A	N/A
July	3.06	N/A	N/A
August	3.07	N/A	N/A
September	3.12	N/A	N/A
October	3.08	N/A	N/A
November	3.06	N/A	N/A
December	3.04	N/A	N/A

SOURCE: Agriculture Secretariat (SAGARPA)

SECTION III. NARRATIVE ON SUPPLY AND DEMAND, POLICY & MARKETING

FLUID MILK

Production

Fluid milk production for CY 2004 (Jan-Dec) is forecast to increase, as larger modern dairies continue to improve their productivity. Production is expected to increase at a moderate rate into the foreseeable future. Mexico's fluid milk production estimate for CY 2003 was revised upward due to technological improvements and better herd management practices during the hot summer months. Despite the forecast increase in production, poor sanitation and genetics, inefficient cold storage, refrigeration, transportation, and marketing facilities, particularly in smaller and dual-purpose cattle operations, remain major obstacles to large increases in production. Small and medium sized dairies are continuously facing financial problems as a result of high production costs and low productivity. Relatively low domestic raw milk prices and the lack of affordable financing for capital improvements discourage small and medium-sized dairy farms from expanding, particularly in central Mexico.

Producer milk prices were 2.26 percent higher in the first five months of CY 2003 than the same period in CY 2002. Raw milk producer prices thus far in CY 2003 ranged between 3.04-3.08 pesos (US$0.27 - 0.28 per liter).

Consumption

Fluid milk consumption for CY 2004 is forecast to increase given current population growth rates and expanded usage by LICONSA and dairy products processors, along with expected improvement in economic growth. Consumption in CY 2003 was revised upward by 3.0 percent from our previous estimate based on more recent information from industry sources.

Consumer prices in Mexico are currently 7.19 pesos per liter for pasteurized milk (US$0.65) and 8.00 per liter of UHT milk (US$0.73). According to private sources, LICONSA is distributing approximately 3.3 million liters of subsidized milk per day at the current price of 3.00 pesos per liter. Although LICONSA has increased utilization of domestic fluid milk significantly, its social program continues to rely mainly on NFDM imports. In CY 2003, LICONSA is expected to use 180 million liters of domestically produced raw fluid milk, 80 percent more than in CY 2002. This, however, will represent only 16 percent of LICONSA's total milk usage. Consumption of fresh fluid milk continues to be hampered by problems with sanitation, transportation, and processing capacity, but supplies and quality are improving.

According to government estimates, about 28 percent of milk is consumed raw in Mexico and 24 percent is consumed via the government's social program. The first case represents a severe health problem, and the second case a heavy monetary burden that discourages domestic milk producers. The consumption of pasteurized milk and dairy products is 48 percent of total consumption, however, due to urban expansion, this percentage could increase as incomes rise.

Trade

Fluid milk imports for CY 2004 are forecast to remain unchanged due to the expected increase in domestic production. As in previous years, most of the imports will go to the border cities of northern Mexico and opportunities for sales beyond the border are limited by the cost and distance of transporting to other areas in Mexico.

Small dairy farms are finding it unprofitable to import heifers due to high domestic interest rates and the risks of accruing dollar debt. However, larger dairy farms continue to import live cattle to complement an expected modest increase in domestic cow numbers. According to World Trade Atlas data, of the total of 11,598 head of dairy cattle imported by Mexico in CY 2002, only 1,454 came from the United States. Supplier availability and price seem to be key factors that are affecting Mexican purchase decisions. Total imports of dairy cattle for the first half of CY 2003 reached 2,581 head, with the United States supplying only 387 head. Increased use of semen to improve dairy genetics is expected to continue in the future. The United States should continue to be the primary supplier, but U.S. exporters are likely to face increased competition from suppliers such as the European Union (EU) and New Zealand.

Policy

The government's main objective is to encourage producers to improve efficiency and productivity. The reduction in imports of fluid milk and dairy products from previous years, particularly into northern Mexico, is much the result of increased domestic milk production. Shipments to Mexican border areas have also been affected by local governments' response to pressure from Mexico's domestic producers to discourage imports of U.S. retail-pack milk. These efforts have been aided by stricter enforcement by Mexican authorities of the labeling regulations, together with quality standards and food safety regulations, which have discouraged some U.S. exporters concerned about potential delays in clearing shipments.

Marketing

See dairy products marketing section at the end of this report.

CHEESE

Production

Cheese production for CY 2004 is forecast to increase due to the expected increase in domestic fluid milk production and consumer demand. CY 2003 cheese output is estimated higher for the same reasons. The CY 2002 estimate for cheese production is revised downward by 5 percent from our previous figure to reflect official government data. Production by commercial cheese processors, particularly those using imported non-fat dry milk, is increasing to meet expected growth in consumer demand as Mexicans increase their consumption of processed and restaurant products containing cheese. Production of home-made cheeses is also expanding given the improved availability of raw milk.

Consumption

Cheese consumption during CY 2004 is forecast to increase compared to the previous year's estimate as a result of population growth and demand from middle class consumers. Cheese consumption for CY 2003 is estimated higher for the same reasons and reflects current industry data. Cheese consumption for CY 2002 reflects official government data.

Trade

Cheese imports are expected higher in 2003 and 2004 as consumers continue to develop preferences for non-Mexican cheeses. Mexico's economy is expected to rebound in late

2003 and 2004, which should foster demand for imported cheeses. Imports for CY 2002 reflect official data.

Policy

See dairy products policy section at the end of this report.

Marketing

See dairy products marketing section at the end of this report.

BUTTER

Production

All Mexican statistics on butter and butterfat production are combined. Butter and butterfat production for CY 2004 is forecast to increase marginally due to the expected increase in fluid milk output and improved returns to processors. The CY 2003 butter production estimate is revised upward due to increased availability of fluid milk and increased usage by LICONSA for reconstituting milk powder for the social program. The CY 2002 butter production estimate reflects official data.

Consumption

Combined butter and butterfat consumption is forecast higher for CY 2004. Increased use by LICONSA's reconstitution of milk powder program for the poor is expected to account for most of the increase. The estimate for CY 2003 is higher reflecting increased usage of butterfat in LICONSA's milk program. Consumption for CY 2002 reflects official data.

Stocks

Consistent with past years, no stocks are estimated due to the lack of refrigerated storage space among producers and end users. Users such as bakeries, food processors, and LICONSA do not keep large stocks of butter.

Trade

Imports are forecast unchanged in CY 2004 due to increased domestic production. For CY 2003, the estimate remains unchanged given steady demand from the bakery and food processing sectors coupled with continued use by LICONSA for reconstituting milk powder with animal fat instead of palm oil.

Policy

See dairy products policy section at the end of this report.

Marketing

See dairy products marketing section at the end of this report.

NON-FAT DRY MILK (NFDM)

Production

Mexican NFDM producers are not expected to significantly increase production in the short term due to limited processing facilities. The output forecast for CY 2004 is slightly greater than the CY 2003 estimate given expectations that LICONSA will seek to maintain a minimal level of stocks to avoid making emergency purchases of milk powder on the international market. The NFDM production estimate for CY 2003 remains unchanged based on expectations that LICONSA will import additional amounts of NFDM. The production figure for CY 2002 reflects official data.

Consumption

The consumption forecast for CY 2004 is unchanged from the previous year's revised estimate as fluid milk consumption is expected to increase. The consumption estimate of NFDM for CY 2003 is revised upward as demand from cheese and other food processors increases. For CY 2002 the consumption figure reflects official data. LICONSA is projected to continue as the main NFDM user.

Stocks

The majority of product imported and produced domestically is used for further processing. LICONSA is the main holder of NFDM stocks. In recent years, LICONSA had tried to maintain larger stock levels to avoid imports during the early part of the calendar year when domestic milk production is highest. However, stock levels are expected to drop somewhat as LICONSA seeks to reduce storage costs while maintaining enough stocks to minimize imports during the first part of the calendar year.

Trade

Mexico continues to be far from reaching self-sufficiency in NFDM production because of limited domestic processing capacity. FAS/Mexico expects that increases in the quantity of subsidized milk that LICONSA distributes to the poor will generally be limited to increases in population. The import forecast for NFDM in CY 2004 reflects the expectation that LICONSA will continue to have access to greater volumes of domestic milk. For CY 2003, the NFDM import estimate is revised upward due to more current information from industry sources pointing to increased demand for NFDM from cheese and other dairy product processors. The NFDM import figure for CY 2002 is also revised upward reflecting official data.

Policy

See dairy products policy section at the end of this report.

Marketing

See dairy products marketing section at the end of this report.

WHOLE MILK POWDER (WMP)

Production

No changes from our previous report, MX3064, dated 5/09/03. Production for CY 2004 is forecast to remain unchanged from the previous year's figures.

Consumption

WMP consumption for CY 2004 is forecast to remain unchanged from the previous year's estimate due to expected stable demand caused by increased fluid milk output. The consumption estimate for CY 2003 also remains unchanged from our previous estimate due to steady demand. According to LICONSA, over 60 percent of the WMP and NFDM is consumed by the poor. LICONSA expects to continue opening new milk stores in proportion to population growth, as long as the government budget permits. LICONSA is currently distributing close to 3.3 million liters of reconstituted milk per day. LICONSA's subsidized milk prices are currently 3.00 pesos per liter (US$0.27/lt).

Stocks

Since production statistics for WMP are unavailable, and total imports of WMP are consumed by dairy-processors and LICONSA, stocks are not reflected in the PS&D table for WMP.

Trade

Mexico continues to be far from reaching self-sufficiency in WMP production because of limited domestic processing capacity. Imports are forecast unchanged in CY 2004 compared to our previous estimate due to modest gains in fluid milk production. Similarly, the CY 2003 import estimate is unchanged reflecting steady demand from the food-processing sector. The CY 2002 estimate reflects official data.

Policy

See dairy products policy section at the end of this report.

Marketing

See dairy products marketing section at the end of this report.

POLICY

With the exception of powdered milk, all U.S. exports of dairy products to Mexico are duty-free in 2003. Milk powder exports (NFDM and WMP) to Mexico are subject to a tariff-rate quota (TRQ), which will be phased out in 2008. Private companies bid for import permits (cupos) that allow them to import a specific quantity under the TRQ at zero duty. LICONSA is not subject to the TRQ and may import any quantity of milk powder at zero duty to meet its program needs.

MARKETING

The cooperator group that represents the US dairy industry in foreign markets is the US Dairy Export Council (USDEC). The council's staff in Mexico City provides information on all aspects of US dairy product trade and use, including market intelligence on trade policy issues, organizing informational seminars for the Mexican trade, and developing promotion and sales opportunities for US dairy products in the Mexican market. USDEC also organizes buying missions for potential Mexican importers/distributors to visit US dairy processing plants so they can meet and see, firsthand, various US suppliers and the services they offer. Mexico is expected to continue as a significant importer of dairy products to augment domestic production. While imports are likely to consist primarily of bulk products such as NFDM, higher value products such as specialty cheeses and ice creams are also likely to find a home in Mexico's growing consumer class as tastes, preferences, and shopping habits increasingly mirror those of the United States and Europe.

US Dairy Export Council (USDEC)
Matanzas 733-C, Col. Lindavista
07300 Mexico, .D.F
Tel 011-52-55-5119-0475
Fax 011-52-55-1997-5758
http://www.usdec.org